

FAST FACTS

- ◆ Some auto dealers claim that you can save money by financing a car rather than paying cash.
- ◆ You may be shown a computer printout that compares financing at one rate and investing the cash not spent in a certificate of deposit (CD) at a lower rate.
- ◆ The comparison leaves out a crucial point when you pay cash, you have no monthly payments.
- ◆ Paying interest on a loan always costs more unless you can invest your cash at an interest rate higher than the loan rate.
- ◆ There may be good reasons to finance rather than pay cash, saving money usually isn't one of them.

When buying a car, don't be misled by cost comparisons between financing and paying cash. Many car dealers now use fancy computer printouts to show that financing a car is a better deal than paying cash for it.

Beware.... The numbers may look good, but the bottom line isn't. Although there may be good reasons to finance a car or other expensive items, it's not usually because it saves money.

Be skeptical, then, if an auto dealer claims that financing costs you less than paying cash.

Information telling the whole story may be missing.

HOW MUCH WILL IT COST?

The Federal Trade Commission (FTC) has taken action against a company that distributed computer software used to misrepresent the "savings" of financing versus paying cash for a car. Many auto dealerships across the country may be using similar software.

The computerized cost comparison seems to "prove" you can save money by financing at one rate and investing the cash not spent in a certificate of deposit (CD) at a lower rate.

But can you really come out ahead by borrowing at one rate and investing at a lower rate? **No!** This comparison leaves out a crucial point.

When you pay cash, you have no monthly payments to make. If each month you invest an amount equal to the car payment, the total you accumulate will be more than the value of the CD described above.

In the end, paying interest on a loan always costs you more unless you can invest your cash at an interest rate higher than the loan rate.

WHY FINANCE YOUR CAR OR OTHER PURCHASES?

You may, however, find it advantageous to finance your car. Many car buyers prefer

taking out loans to paying cash for any of the following reasons.

- ◆ You may need your cash for other purposes, such as paying for other products or services, maintaining a better cash flow, or building a "cash cushion" for such things as emergencies or college tuition.
- ◆ You may be able to buy a more expensive car by using financing.
- ◆ Under some circumstances, if you finance a car that develops serious problems, you may not have to continue making payments.
- ◆ Some people would rather have to make monthly payments than use their own money because they would be lax in paying themselves back.

Be aware, however, that car salesmen may be earning commissions when they convince you to finance a car through their dealership.

When a dealer assigns a contract to a bank or finance company, that creditor often gives the dealer a portion of the finance charge called a "dealer reserve." You may be able to get a lower interest rate if you secure your own financing through your local bank or credit union.

THINK CAREFULLY ABOUT ANY CLAIMS THAT FINANCING A CAR CAN SAVE YOU MONEY.



The Indiana Department of Financial Institutions,
Division of Consumer Credit has many other credit
related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the
cover for a copy of any of the brochures listed or for
further consumer credit information. You can also access
information at our web site on the Internet:
<http://www.dfi.state.in.us>, then click on Consumer Credit.



CAR FINANCING SCAMS



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
402 West Washington Street, Room W066
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880
Web Site <http://www.dfi.state.in.us>

